



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Union Elementary School District No. 62

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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OFFICE OF THE
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WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 11, 2006

Governing Board
Union Elementary School District No. 62
3834 South 91st Avenue
Tolleson, AZ 85353-9394

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Finance Supervisor in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



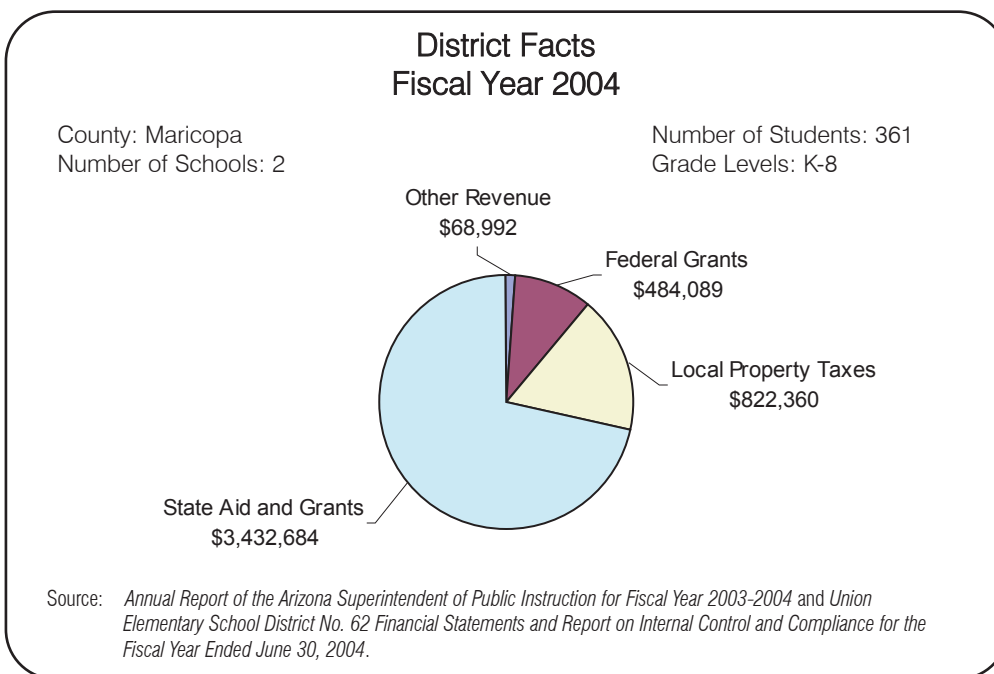
Introduction	1
Recommendation 1: The District must follow competitive purchasing requirements	2
Recommendation 2: The District's controls over student activities monies should be strengthened	3
Recommendation 3: The District should maintain accurate student attendance records	4
Recommendation 4: The District's control over expenditures should be improved	5
Recommendation 5: The District should maintain and report accurate financial information	5
Recommendation 6: The District should improve its controls over payroll processing	7
Recommendation 7: The District should strengthen controls over its bank accounts	7

INTRODUCTION

Union Elementary School District No. 62 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$4.8 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School

District Procurement Rules or the USFR guidelines. Specifically, the District did not always include all required information in its requests for proposals. In addition, the District did not contract for construction services for a project that used the construction-manager-at-risk procurement method in accordance with Arizona Revised Statutes (A.R.S.), since it did not request bid security or performance and payment bonds. Also, for sole source purchases, the District did not obtain the Governing Board's written approval that only one supplier existed for the required material, service, or construction item. Further, the District did not always obtain oral and written price quotations for purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should follow the procedures listed below:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Include all information, including the relative importance of price and other factors required by School District Procurement Rules in the requests for proposals.
- Request bid security or performance and payment bonds for projects that use the construction-manager-at-risk procurement method as outlined in A.R.S.
- Award a contract for a material, service, or construction item without competition only when the Governing Board determines in writing that there is only one vendor who supplies the item or service. Retain this written determination with other supporting documentation in the purchasing file. Avoid sole source procurement, except when no reasonable alternative vendor exists.
- Obtain oral price quotations from at least three or more vendors for purchases that individually or in the aggregate are estimated to cost at least \$5,000 but less than \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost at least

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Rules for the construction-manager-at-risk procurement method are outlined in A.R.S. §§41-2574 and 41-2578.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9, and in USFR Memorandum No. 213.

\$15,000 but less than \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. If a vendor is selected for reasons other than the lowest price, such as quality of the product or work to be performed, the District should fully document the reasons.

The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. Specifically, the District did not maintain documentation to support cash received at student activities events. In addition, a student activities purchase was made with cash rather than a prenumbered check drawn on the student activities bank account. Further, the District did not include all student clubs in its student activities bank account reconciliation, and did not submit monthly student activities reports to the Governing Board.

Poor cash controls left student monies susceptible to loss, theft, or misuse.

Recommendations

To strengthen controls over student activities monies, the District should establish and follow the policies and procedures listed below:

- Prepare cash collection or activity reports to document and reconcile cash collected and tickets or items sold at student activities events. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, club sponsors should prepare cash collection reports to document cash collected.
- Use prenumbered and numerically controlled checks signed by the student activities treasurer or assistant treasurer and one other person appointed by the Governing Board for all disbursements.
- Maintain separate records and record the related receipts and disbursements for each student club.
- Prepare written bank reconciliations that include all student clubs' cash balances.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

- Prepare a monthly report of cash receipts, disbursements, transfers, and cash balances, and submit it to the Governing Board.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document membership, absences, and entry and withdrawal dates. Accurate attendance records are essential to help ensure that the District receives the correct amount of state aid. However, the District did not always record partial-day

attendance correctly and did not withdraw students with ten consecutive unexcused absences appropriately. In addition, the District did not document the date student entries and withdrawals

The District may not have received the proper amount of funding as partial-day attendance was not always recorded correctly.

were entered into the District's computerized attendance system and did not always retain withdrawal forms. Entries and withdrawals should be entered timely to ensure that the student's enrollment status is accurately reflected in ADE's Student Accountability Information System. Further, the dates on the entry and withdrawal forms did not always agree with the dates recorded in the District's computerized attendance system or the teachers' attendance records.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report partial-day attendance in accordance with ADE's *Instructions for Required Reports*. In addition, for students with ten consecutive unexcused absences, the District should count those students in membership through the last day of actual attendance. Further, the District should retain withdrawal forms and documentation to indicate when entries and withdrawals were entered into the District's computerized attendance system to help ensure that attending students are counted correctly. Finally, the District should ensure that membership and absences reported to ADE are supported in the attendance records.

The District's control over expenditures should be improved

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures are properly supported. However, the District did not follow such procedures since it did not always prepare and approve purchase orders before ordering goods and services, check vendor invoices for mathematical accuracy, or properly cancel vendor invoices and other supporting documentation. In addition, the District recorded expenditures in fiscal year 2005 for goods and services received in fiscal year 2004 and did not ensure sufficient cash was available in four cash-controlled funds before authorizing expenditures.

The District authorized expenditures in four funds in excess of available cash.

Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee before ordering goods and services.
- Verify that sufficient cash or budget capacity exists in funds before approving purchases.
- Check vendor invoices for mathematical accuracy to ensure accurate payments and document that the check was performed.
- Cancel vendor invoices and other supporting documentation by stamping them paid to prevent duplicate payments.
- Ensure that expenditures are recorded and paid in the fiscal year in which goods or services were received.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial report

The District did not always record transactions properly in its accounting records or retain its accounting records.

(AFR) are accurate and complete, transactions are properly recorded and authorized, and accounting records are retained to support amounts reported in the District's financial statements. However, the District did not fully accomplish this objective as transactions were not classified and recorded in accordance with the USFR Chart of Accounts. Also, journal entry forms were not reviewed and approved by an employee other than the preparer prior to posting them in the accounting records. In addition, the District did not accurately report budgeted and actual expenditures for several funds and capital asset amounts on the AFR. Also, for one fund, the District did not include the correct amount of Classroom Site Fund budget balance carryover from the prior year in its expenditure budget. Finally, the District did not always retain accounting records and other documentation to support amounts reported in its financial statements and, as a result, did not follow the retention requirements as outlined in the *Records Retention and Disposition for Arizona School Districts* manual.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Retain accounting records and supporting documentation in accordance with the USFR and the *Records Retention and Disposition for Arizona School Districts* manual published by the Arizona State Library, Archives and Public Records' Records Management Division.
- Classify all transactions in accordance with the USFR Chart of Accounts.
- Require a supervisor to review and approve each journal entry before it is posted to the accounting records. The supervisor should sign or initial each journal entry form after approving it.
- Update accounting records for all revenues, expenditures, and capital asset balances before preparing the AFR.
- Assign a second employee to verify that amounts reported in the AFR are accurate and agree with the District's accounting records.
- Carry forward correct budget balance amounts for the Classroom Site Funds from the prior year for the current year's expenditure budget.

USFR §III provides guidance for classifying financial transactions.

The District should improve its controls over payroll processing

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and to maintain current personnel records to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, gross pay amounts could not always be recalculated based on the employees' personnel files, and time cards for hourly employees were not properly approved by the employees' supervisors. In addition, the District did not always ensure that employee contracts were signed and maintained on file. Further, the District allowed employees to use leave time that was not earned.

Supervisors did not approve hourly employees' time cards.

Recommendations

To help strengthen controls over payroll processing, the District should retain signed contracts on file for all salaried employees and ensure that employees are paid based on their contracts. In addition, time sheets/cards should be prepared for each hourly employee, signed by the employee, and approved by the employee's supervisor. Further, each pay period, the District should update leave balances based on accrual rates and approved leave slips to help ensure that employee leave balances are accurate and that employees are not paid for leave taken in excess of their balances.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

The District should strengthen controls over its bank accounts

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. However, the District did not accomplish this objective since the District did not maintain check registers for the food services clearing and Maintenance and Operation Fund revolving bank accounts. As a result, the District was unable to prepare bank reconciliations for these accounts. In addition, the District did not prepare a bank reconciliation for the payroll bank account at June 30, 2004.

The District failed to reconcile three of its bank accounts.

Bank reconciliation procedures are outlined on USFR pages VI-C-6.

Recommendations

To help strengthen controls over cash held in bank accounts, the District should record all bank account deposits, checks, and cash balances in check registers. Also, a district employee who is not responsible for making deposits or issuing checks should prepare, sign, and date written bank reconciliations monthly for all bank accounts to verify the accuracy of bank and check register balances.